

# STANDARDS BOOKLET FOR BUSINESS STUDIES

## IGCSE Business Studies 0450

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## INTRODUCTION

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The IGCSE examination papers are based on the assessment objectives as described on page 2 of the syllabus. Broadly speaking the assessment areas are

- Knowledge and understanding of syllabus content 25%
- Application of knowledge and understanding 25%
- Analysis of information/problems 25%
- Evaluation/judgements/recommendations 25%

The structure and timing of each examination paper is given on page 4 of the syllabus.

The standards booklet is designed to provide support to teachers of the subject in the following ways:

- Giving examples of candidates' work at different achievement levels
- Relating answers to the mark scheme
- Providing a commentary on the candidates' work

The answers provided are designed to give some guidance as to the different range of responses that candidates typically provide and how these responses are assessed. There is no attempt made to provide specimen perfect answers.



## QUESTIONS AND RESPONSES

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### Paper 0450/1 Short answer/structured questions

#### Question 1 (a)

- (i) Explain what is meant by a public sector business. **2**
- (ii) Give an example of a business that you would expect to find in the public sector. Explain your answer. **3**

#### General Comments

- (i) Candidates are expected to show clear understanding of public sector concept by identifying two key features such as a business owned, funded or controlled by the state.
- (ii) An example **must** be provided along with reasons that are usually associated with justifications for state ownership such as key strategic importance or competition inappropriate.

#### Individual Candidate Response

##### Candidate A

- (i) A public sector business is one which is not privately owned.
- (ii) An example would be a bus company because they cost a lot of money to run.

##### Candidate B

- (i) A public sector business is one that is organised by the government and does not aim to make a profit.
- (ii) An example would be a railway company. This is because railways are essential to a country and it is important that all people can afford to use them. This will happen because the state does not aim for a profit.

#### Examiner Comment

##### Candidate A

- (i) Some understanding is shown of the difference between private and public sector business in terms of ownership.

**Marks awarded = 1 out of 2**

- (ii) An example is provided with a simple attempt to justify on basis of cost.

**Marks awarded = 2 out of 3**

**Candidate B**

- (i) Two features identified showing quite good understanding.

**Marks awarded = 2 out of 2**

- (ii) Example acceptable and two valid justification points provided.

**Marks awarded = 3 out of 3**

**Question 1 (b)**

State **three** objectives that a business in the **private** sector of an economy might try to achieve. **3**

**General Comments**

One mark per acceptable objective given.

**Individual Candidate Response**

**Candidate A**

The objectives would be to make money, to exploit consumers and to produce goods as cheaply as possible.

**Candidate B**

The objectives would be to make a profit for the owners. To increase market share and to create as many jobs as possible.

**Examiner Comment**

**Candidate A**

Candidate A has made 3 points but has provided only 1 acceptable objective. Even this was stated very simply. 1 mark was awarded for making money. The other two points are not objectives in their own right.

**Marks awarded = 1 out of 3**

**Candidate B**

Candidate B would have gained 2 marks out of 3. Profit and market share are both rewardable but job creation is a by-product of success not an aim in itself.

**Marks awarded = 2 out of 3**

**Question 1 (c) (i)**

What are the main features of a business partnership?

**3**

**General Comment**

Candidates must identify **features** of a partnership not partners objectives or reasons for setting one up.

**Individual Candidate Response****Candidate A**

A partnership is a group of people who run a business together. They are in the private sector of an economy.

**Candidate B**

A partnership exists when two or more people agree to set up a business. They also agree to share decision-making and the profits that are made. Partners have unlimited liability.

**Examiner Comment****Candidate A**

Candidate A has identified one feature of a partnership namely that the partners run a business together. The fact that it is correct to say that it is in the private sector would not gain a mark as such.

**Marks awarded = 1 out of 3**

**Candidate B**

Candidate B has identified 3 features that are rewardable although none are properly developed. It would however gain 3/3.

**Marks awarded = 3 out of 3**

**Question 1 (c) (ii)**

What are the advantages to the members of a partnership if a business is converted into a private limited company?

**3**

**Individual Candidate Response****Candidate A**

A limited company would be an advantage to the owners because it would allow them to issue shares and increase their capital. This should increase profits.

**Candidate B**

A limited company would allow more capital to be raised and this would benefit the business because it could expand and increase both sales and profits. It would also protect the owners by creating limited liability.

### Examiner Comment

#### Candidate A

One point developed well. Question asked for more than one advantage.

**Marks awarded = 2 out of 3**

#### Candidate B

A number of points as well as appropriate development.

**Marks awarded = 3 out of 3**

### Question 1 (d)

Explain **two** methods that a Public Limited Company (plc) might use to communicate information to its shareholders. **6**

### General Comment

The question asks for explanation and hence some development of a point is essential. Method has to be specific and not general, like by post, to be acceptable.

### Individual Candidate Response

#### Candidate A

A meeting held to which shareholders are invited. The management will tell them how well the company is doing. They might also telephone them to let them know what is going on.

#### Candidate B

The AGM is the main way of communicating with shareholders. This allows information to be given directly to shareholders and gives them a chance to ask questions about company policies. The company could also send out newsletters directly to shareholders to let them know of major events that have happened within the business.

### Examiner Comment

#### Candidate A

Candidate A has identified one method and simply explained it.

**Marks awarded = 2 out of 6**

#### Candidate B

Candidate B has identified two methods and explained the first well and the second adequately.

**Marks awarded = 5 out of 6**



**Question 2**

Company X sells its products to both consumers and business customers. Consumers pay cash immediately when they buy but business customers are given two months' credit. 60% of company X's sales are to business customers. Table 1 shows the total value of sales for company X during the first three months of the year.

	January 20	February 30	March 40
Sales (\$000)			

**Question 2 (a)**

Explain the following terms:

- |                |   |
|----------------|---|
| (i) debtors    | 2 |
| (ii) creditors | 2 |

**General Comment**

Candidates must clearly be able to distinguish between money owed to the company and money owed by the company.

**Individual Candidate Response****Candidate A**

A debtor is someone who owes us money. A creditor is someone who we have given credit to in order to buy goods.

**Candidate B**

A debtor is a customer who has bought goods from a company but as yet has not paid their invoice. A creditor is probably a supplier of a company that allows us to receive stock and to pay for them later. In a sense they give us credit.

**Examiner Comment****Candidate A**

Candidate A has a simple understanding of a debtor (they fail to show why they exist) and is confused regarding a creditor as they state that we owe them money.

**Marks awarded = 1 out of 4**

**Candidate B**

Candidate B has a clear understanding of the distinction and would gain full marks.

**Marks awarded = 4 out of 4**

**Question 2 (b) (i)**

How much cash from sales did company X receive in March? Show your calculations.

**4**

**General Comment**

Candidates have to show awareness that cash in March comes from two sources, namely cash sales and debtor payments. The latter have a two month time lag.

**Individual Candidate Response****Candidate A**

\$40000. This is because they sold \$40000 goods in March.

**Candidate B**

Debtors are 40% of \$20000  
Cash sales are 40% of \$40000.  
Thus total cash received is \$24000

**Examiner Comment****Candidate A**

Candidate A fails to display any understanding of the sales on credit concept and has misunderstood the data.

**Marks awarded = 0 out of 4**

**Candidate B**

Candidate B has made one error namely taking 40% of January sales, not 60%. Otherwise calculations correct. Own figure rule will apply here.

**Marks awarded = 3 out of 4**

**Question 4 (b) (ii)**

Why do you think that company X gives credit terms to business customers?

**2**

**Individual Candidate Response****Candidate A**

Credit terms are offered to gain customers.

**Candidate B**

Credit terms are offered because in some markets business customers expect them. If they are not available they may buy from competitors. Thus our company has to give them to keep the customers happy.

### Examiner Comment

#### Candidate A

Candidate A has simply identified a valid point but no attempt made to develop it.

**Marks awarded = 1 out of 2**

#### Candidate B

Candidate B has shown higher level appreciation of issues.

**Marks awarded = 2 out of 2**

### Question 2 (c)

Explain why a business might use a bank overdraft to help with cash flow problems.

**4**

### General Comments

Candidates need to show why an overdraft is suited to dealing with cash flow problems to gain full marks.

### Individual Candidate Response

#### Candidate A

An overdraft means you can spend money you don't have. It is like a kind of a loan. It gives you money.

#### Candidate B

An overdraft is a short term loan given by a bank. It is available to spend on what you like and is thus useful in dealing with cash flow problems because it gives you immediate cash.

### Examiner Comment

#### Candidate A

Candidate A has some awareness of what an overdraft is and has a limited but undeveloped attempt to link with cash flow.

**Marks awarded = 2 out of 4**

#### Candidate B

Candidate B has a simple awareness that an overdraft is short term loan and develops the link with cash flow tolerably.

**Marks awarded = 3 out of 4**

### Question 2 (d)

Company Y needs to raise capital to finance the purchase of new machinery. What factors should the management of the company consider when deciding how this capital should be raised? Explain your answer. 6

### General Comment

Answers must link sources to needs. Thus any answer that suggests short term factors displays insecure understanding of appropriate sources of funds.

### Individual Candidate Response

#### Candidate A

The business could sell more shares.  
Borrow money from a bank long term.  
Apply for a government grant.

#### Candidate B

The owners could invest more capital themselves or issue more shares. They might not want to do this because they would lose control over their business. So long term debts might seem more sensible. They could use the machine as security for the loan. Such a decision should not be made in a hurry because large debts are undesirable because they have to be repaid at the end of the loan.

### Examiner Comment

#### Candidate A

Candidate A has given a bullet point list type answer. The points included are valid but obviously no explanation has been provided. Furthermore sources have been identified but not factors to consider.

**Marks awarded = 2 out of 6**

#### Candidate B

Candidate B has identified two factors, namely share issue and long term debts. They have also discussed factors that need to be considered like ownership and size of debts.

**Marks awarded = 5 out of 6**

### Question 3

L and B Games Ltd. Has just produced a new computer game for teenage children. "We aimed at this market segment because we believe that these are the customers who spend most money on these types of products," said the marketing director. "We also needed to have a new product because some of our other games have reached the maturity stage of their product life cycle."

**Question 3 (a) (i)**

Explain the following terms:

(i) market segment

2

**General Comment**

A term must not be defined using the term e.g. a market segment is a segment of a market. A contextual example is a way of aiding an explanation.

**Individual Candidate Response****Candidate A**

A market segment is a part of a market. It is the part of the market that the company aims at.

**Candidate B**

A market segment is a group of customers who have similar wants. Markets can be segmented by age, income or gender. In this case they used age because it was aimed at teenagers.

**Examiner Comment****Candidate A**

Candidate A has recognised that a segment is a part of the total but has failed to build upon this.

**Marks awarded = 1 out of 2**

**Candidate B**

Candidate B has shown an understanding and this has been enhanced by examples.

**Marks awarded = 2 out of 2**

**Question 3 (a) (ii)**

(ii) product life cycle

2

**Individual Candidate Response****Candidate A**

A product life cycle shows the sales of a good over its life on the market.

**Candidate B**

A product life cycle is made up of a number of stages from its launch to eventual decline. It shows how old a product is.

### Examiner Comment

#### Candidates A and B

Both answers show some understanding of the concept but neither is entirely accurate or very precise.

**Marks awarded = 1 out of 2**

### Question 3 (b)

What distribution channels would you suggest that the company use for the new product? Explain your choice. **5**

### General Comments

Answers should show a general understanding of the ideas behind distributional channels and when they should be used.

### Individual Candidate Response

#### Candidate A

The company should use a channel which is short as this will cut costs. It also needs to be quick so that the product is available soon. I think selling to shops would be a good idea.

#### Candidate B

The company should use wholesalers who then sell to shops. The wholesalers would hold the stock and the shops will help sell the products. The shops must be ones that teenagers visit as these are our market segment. There would be no point selling through shops where old people go because they would not be interested in computer games.

### Examiner Comment

#### Candidate A

Candidate A has identified some relevant points but has made no contextual reference.

**Marks awarded = 3 out of 5**

#### Candidate B

Candidate B has shown a good grasp of issues and has recommended a channel with contextual justification.

**Marks awarded = 5 out of 5**

**Question 3 (c)**

The marketing director knew that the price of the new game would be important in gaining sales. Market research showed that the market for such games was price elastic.

**Question 3 (c) (i)**

- (i) Explain what is meant by price elastic demand. **2**

**General Comments**

Candidates need to be able to show that a price elastic demand is one which is much affected by price changes.

**Individual Candidate Response****Candidate A**

This means that more will be sold at a lower price.

**Candidate B**

It means that if the company lowers its price it will have a big effect on sales. Consumers are strongly influenced by prices.

**Examiner Comment****Candidate A**

Candidate A has shown a basic appreciation of the concept.

**Marks awarded = 1 out of 2**

**Candidate B**

Candidate B has made two points, the second of which develops on from the first. Although not very well expressed it would gain 2/2.

**Marks awarded = 2 out of 2**

**Question 3 (c) (ii)**

- (ii) What other factors should the company consider before deciding on the selling price for the new game? Explain your answer. **5**

### General Comment

Awareness of market conditions including degree of competition needs to be shown.

### Individual Candidate Response

#### Candidate A

The company might consider the costs of the game. The higher these are the more the price would be. They might also consider what the government would think. If prices are high this causes inflation and the government won't like it.

#### Candidate B

The company might need to consider the market segment that the game is aimed at. Will prices attract them? Competitors will also sell games and if our prices are too high then customers will buy from them. So there are lots of things to consider.

### Examiner Comment

#### Candidate A

Candidate A has made two separate points. The first is clearly valid and is quite well developed. The second has some accuracy but is not really precise.

**Marks awarded = 3 out of 5**

#### Candidate B

Candidate B has identified and explained two points.

**Marks awarded = 4 out of 5**

### Question 3 (d)

Identify and explain **one** promotional method that the company could use to increase the sales of the game. **4**

### General Comments

No further credit can be awarded to anyone who identifies more than one method of promotion. The additional 3 marks are for explaining it.

### Individual Candidate Response

#### Candidate A

The business could use a number of promotional methods. They could increase adverts on television. They could also use special offers like buy one and get one free. They could also advertise in newspapers.

#### Candidate B

The business could promote the new product by showing a television advert using a well known pop star. This would attract the interest of teenagers and would make their game better known. Such promotions are usually very effective.



### Examiner Comment

#### Candidate A

Candidate A has shown knowledge of promotional methods but has not answered the question. There is no explanation of the methods.

**Marks awarded = 1 out of 4**

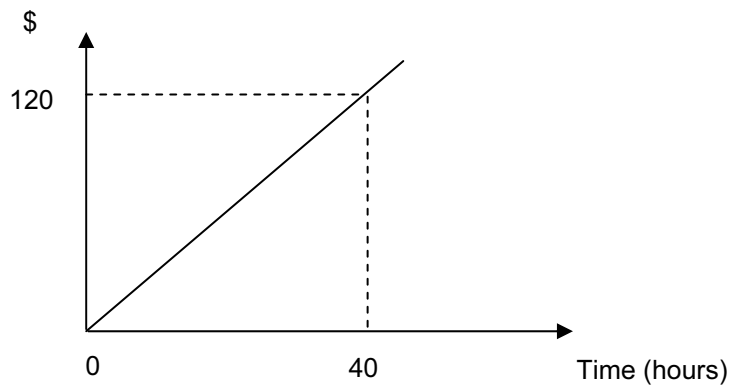
#### Candidate B

Candidate B has identified a method. Explanation is sensible if a little simple.

**Marks awarded = 3 out of 4**

### Question 4

#### Hourly Payment System



**Fig. 1**

A business pays its employees on a time basis with overtime payments sometimes being available.

### Question 4 (a) (i)

Explain what is meant by overtime payment.

**2**

### General Comment

The answer must show the difference between normal working and extra working.

### Individual Candidate Response

#### Candidate A

Overtime is the extra pay you sometimes get.

#### Candidate B

Overtime is the additional pay you get for working extra hours.

### Examiner Comment

#### Candidate A

Candidate A failed to make it clear why this extra pay was earned although they were aware that it was some form of additional payment.

**Marks awarded = 1 out of 2**

#### Candidate B

Candidate B has shown a better understanding and emphasises that the payment is for working extra hours.

**Marks awarded = 2 out of 2**

### Question 4 (a) (ii)

In this business, if a member of staff works over 40 hours per week then an overtime rate of two times the normal hourly rate is paid.

Calculate the wage earned by someone who works 50 hours in one week. **3**

### General Comment

Ability to interpret graph and to use the figures for calculation.

### Individual Candidate Response

#### Candidate A

\$150. They get paid \$3 per hour. Thus 50 hours = \$150

#### Candidate B

The hourly rate is doubled for overtime. Thus they get \$6 for overtime. Thus for 50 hours they get 40@ \$3 plus 10 @ \$6 = \$160

### Examiner Comment

#### Candidates A and B

Both have got the wrong answer. Candidate A failed to notice the overtime rate while B understands the concept but made an arithmetic error.

**Marks awarded Candidate A = 1 out of 3**

**Marks awarded Candidate B = 2 out of 3**

**Question 4 (b)**

Identify and explain another wage system that the business could use.

4

**General Comment**

The system MUST be unrelated to number of hours worked to be acceptable. Thus likely to be output or performance based.

**Individual Candidate Response****Candidate A**

The company could use the output method. The more people produce the more they are paid. People like to be paid this way.

**Candidate B**

The business could use a piece rate method. This works by paying workers say \$2 per item produced. This gives them a financial incentive to work hard because they will earn more.

**Examiner Comment****Candidate A**

Candidate A has identified a method and has made a limited attempt to explain how it might operate.

**Marks awarded = 2 out of 4**

**Candidate B**

Candidate B has identified a method, shown how it operates and has drawn some inference from it (impact on incentives).

**Marks awarded = 4 out of 4**

**Question 4 (c)**

The morale and motivation of the employees at the company is known to be low. Identify and explain **two** non-financial methods that could be used to improve the situation.

6

**General Comment**

Candidates need to focus on non-financial methods and to demonstrate how they might improve motivation.

### Individual Candidate Response

#### Candidate A

The business could improve the working conditions. Perhaps the building is too hot or cold and this makes people unhappy. The floor might be dirty and accidents happen. They could also offer bonuses for better performance like meeting targets.

#### Candidate B

Maslow said that work meets people's needs. So the business should hold social events so that people get to know everyone. This would help build team spirit. They could also change the style of management. The supervisors should be more friendly to the workers. This will help motivate them better because they will be happier at work.

### Examiner Comment

#### Candidate A

Candidate A has identified working conditions as a cause of low morale and has developed the idea rather simply. Their second point is not valid as it is a money payment.

**Marks awarded = 2 out of 6**

#### Candidate B

Two points made. First one well developed showing how the action would impact on the group. The second point was less well developed and is simplified.

**Marks awarded = 5 out of 6**

### Question 4 (d)

Most of the employees have recently joined a trade union. What advantages might the employees gain from joining a trade union? 5

### General Comments

The answer must show advantages to the employees not the company or anyone else. Disadvantages are NOT required. Trade Unions do not make laws and often candidates seem to imply that they do.

### Individual Candidate Response

#### Candidate A

Employees join a union because they will get higher wages. Unions make sure that their members are not exploited. They also try to get shorter working hours for workers. They also stop their members from being made redundant.

#### Candidate B

Trade unions help workers fight for their rights. They make sure that they are paid the correct amount. They see that laws are followed like health and safety at work. They give support in disagreements with the management. They make sure that workers are not taken advantage of by managers who only want to make a profit.

### Examiner Comment

#### Candidate A

Candidate A has made a few points but has not attempted to explain them. Some of their points are not accurate either (stop redundancies).

**Marks awarded = 2 out of 5**

#### Candidate B

Candidate B has identified a number of benefits from joining a union and has shown how they come about.

**Marks awarded = 5 out of 5**

### Question 5 (a)

An American multinational car manufacturer is closing some of its factories in the UK and transferring production to Spain and Germany. The Chief Executive explained that it was trying to reduce its costs to make the business more profitable. Both the government and the trade unions in the UK were unhappy with this decision.

#### Question 5 (a) (i)

Explain what is meant by a multinational company.

**2**

### General Comment

Answers must explain a feature that makes a business be classified as multinational (not just big).

### Individual Candidate Response

#### Candidate A

They are big companies that sell in a number of countries.

#### Candidate B

They are large businesses that produce, operate and sell in more than one country.

### Examiner Comment

#### Candidate A

They have some idea of more than one country but their answer would be equally true of a large business that simply exported to other countries.

**Marks awarded = 1 out of 2**

#### Candidate B

Candidate B gains 2/2 for identifying key features.

**Marks awarded = 2 out of 2**

**Question 5 (a) (ii)**

Identify and explain **three** factors the management of the company might have considered before making its decision. **6**

**General Comment**

Three separate points need to be identified and then discussed to show their relevance to the decision.

**Individual Candidate Response****Candidate A**

Making cars in Spain would be cheaper than in UK. This is because wages are lower there. Trade unions might not exist in Spain so workers will be easier to exploit. The UK factories might be old.

**Candidate B**

The business might transfer production because it will lower costs. Wages in Spain are lower than in the UK. Since labour costs are large in car making this is an important factor. Perhaps the Spanish Government is giving them grants to go there. This too would cut their costs. Finally labour laws are not enforced in Spain so the company could save money here as well. The move will cut costs and increase profits.

**Examiner Comment****Candidate A**

Three points made and some attempt at development.

**Marks awarded = 4 out of 6**

**Candidate B**

A number of points made and good attempt to develop. Although there was some overlap of points the candidate was awarded 6/6.

**Marks awarded = 6 out of 6**

**Question 5 (a) (iii)**

Explain one possible disadvantage to the Spanish government of allowing a multinational company to set up in Spain. **3**

**General Comment**

Only one point asked for, thus additional marks for development in the explanation.

### Individual Candidate Response

#### Candidate A

The company might take advantage of the workers and pay them low wages. They might also only be interested in profits and not care about Spain.

#### Candidate B

The company is an American one and the decisions will be taken there and not in Spain. Profits that are made will flow back to America and this will not help the Spanish economy.

### Examiner Comment

#### Candidate A

This answer has made a few points (not required) and has not really developed any of them except to say they are keen to keep costs down.

**Marks awarded = 1 out of 3**

#### Candidate B

This answer has tried to develop a point namely that decisions will be made with American shareholders in mind not the Spanish economy.

**Marks awarded = 2 out of 3**

### Question 5 (a) (iv)

Should governments intervene in business location decisions? Justify your answer.

**5**

### General Comment

The quality of the candidates' logic will be the key factor determining their mark. The reasons why are what the examiners are interested in.

### Individual Candidate Response

#### Candidate A

A decision to locate in an area has an affect on that area. It will create jobs and produce local wealth. This will help the area and the people who live there.

#### Candidate B

Yes, I think governments should intervene in location decisions. A business cannot just be allowed to set up anywhere. It might damage the environment or spoil a local beauty spot. These are called social costs and governments must try to stop them happening. Furthermore jobs are needed more in some areas than others. Governments should try and encourage firms to go to areas of high unemployment and not go to areas where they would just add to overcrowding and congestion. So it is important that all these factors are taken into account and only the government can do this.

### Examiner Comment

#### Candidate A

Candidate A has identified a few points but has not used them to construct an argument or arrive at a conclusion.

**Marks awarded = 3 out of 5**

#### Candidate B

Candidate B has produced an excellent answer that considers various points and clearly arrives at an outcome that justifies government action.

**Marks awarded = 5 out of 5**

### Question 5 (b)

In some countries governments pass laws that protect consumers. Using an example, show how a consumer can benefit from such laws. 4

### General Comment

The answer must contain an example that focuses on how the consumer benefits.

### Individual Candidate Response

#### Candidate A

A consumer might buy a coat that says it is made of real leather. They cannot tell themselves if this is so. They need laws to protect them.

#### Candidate B

A consumer buys a bag of sweets. On the bag it says that the contents have a minimum weight of 500 grams. This is required by law. It means that the customer is sure that he is getting a guaranteed minimum. Without the law some businesses might sell low weight packets to cut their costs and make more profit.

### Examiner Comment

Both candidates have used an example. Both have chosen a similar theme namely protection against unfair business practice.

#### Candidate A

In the case of Candidate A the point made relates to quality of fabric. They fail to really make the best of a good example but were given 3/4 because the discussion, although limited, did show that the consumer was unable to look after their own interests.

**Marks awarded = 3 out of 4**

#### Candidate B

Candidate B has also given an example that shows the benefit to the consumer and also indicates what might happen if such laws did not exist.

**Marks awarded = 4 out of 4**



## Paper 0450/02 Case Study

### Question 1 (a)

How would you expect the organisation chart for Diaz Enterprises Ltd to differ from the organisation chart for a large business?

6

### General Comment

The candidate is expected to explain that a large organisation would have different departments run by different people whereas the organisation chart in the case is very narrow with the management functions being shared by just two people.

### Individual Candidate Response

#### Candidate A

A large business will need many different departments to deal with the different functions that need to be carried out such as marketing, human resources, finance, operations. These departments are separate as they have lots of work for each area to do in a large business. For example people will be recruited or trained, etc, all the time in a large business and therefore the business will need specially qualified staff to do this job all of the time. Diaz Enterprises Ltd is a small business and does not have enough work for each functional area to need a separate person or department and that's why Carlos and Jasmin cover more than one department each. For example, Jasmin will not need to be recruiting or training staff everyday so she will look after production the rest of the time and just carry out the personnel function when needed. So the organisation chart will be different because it will show all the different departments in a large business but a small business will only have two main areas with the different functions being carried out by two people.

#### Candidate B

The organisation chart for Diaz Enterprises Ltd will only have two departments. Carlos Diaz looks after finance and marketing while Jasmin Diaz looks after personnel and production. A big business will have lots of different departments.

### Examiner Comment

#### Candidate A

This candidate explains why the organisation chart will be different for the two different sizes of business and gives an example from the case to illustrate their understanding. This puts the answer into level two.

**Marks awarded = 6 out of 6**

#### Candidate B

This candidate has made simple statements about the business in the case and made some reference to large business. However, they have not said anything about why the organisation charts would be different.

**Marks awarded = 2 out of 6**

### Question 1 (b)

What are the advantages and disadvantages to the business of only having two people managing the business? 8

### General Comment

For high marks the candidate needs to identify **both** advantages and disadvantages and **what effect** they have on the business.

### Individual Candidate Response

#### Candidate A

With only two people managing the business there will be good communication between Carlos and Jasmin which will mean that they should always know what the other person is doing. There should not be mistakes because they didn't know what was happening. They will be used to working with each other and therefore with only two of them there should be fewer disagreements which will mean there will be a smoother running of the business. Finally because communication is good, decisions can be made quickly. This should lead to greater efficiency in the running of the business as answers to questions can be given to customers etc. straight away, which will give customers a good impression of the business.

However, with only two of them managing Diaz Enterprises Ltd it will mean that there will be fewer skills being brought to the business so there may be some bad decisions made due to lack of expertise. Carlos and Jasmin won't know how to do everything, they cannot be experts in everything and so some things will not be done properly e.g. marketing may not be done well and so the business may lose sales. If one of them is ill then there is only one other person who is left running the business which will be difficult to do and this will slow things down.

#### Candidate B

The advantages are that the business decisions are split between only two people. There will be fewer arguments between them. The profit that is made is only split between two of them. A disadvantage would be they cannot afford to finance new technology out of their funds. They have to do all the work themselves which could be stressful. They will not have all the skills required to carry out all the management jobs e.g. marketing, recruitment.

### Examiner Comment

#### Candidate A

A selection of advantages and disadvantages that might be expected were outlined. The candidate related these to how they would affect the business. So not only has knowledge been shown of the advantages and disadvantages but the candidate has also evaluated the effects on the business.

**Marks awarded = 8 out of 8**

#### Candidate B

Two advantages are listed but the second is not an advantage to the business but to the owners. Three disadvantages are listed but the first is not a disadvantage of managing the business it is a disadvantage to the owners. None of these are explained as to why they are an advantage or disadvantage.

**Marks awarded = 4 out of 8**

### Question 1 (c)

Explain to Carlos the disadvantages of changing to a public limited company.

6

### General Comment

A range of disadvantages needs to be explained as well as being applied to the case for the highest marks to be gained.

### Individual Candidate Response

#### Candidate A

The disadvantages of becoming a plc is that the legal formalities of forming the company are complicated. In order to protect the interests of shareholders there are a lot more regulations and controls over the business for example this means they would have to publish their accounts which anyone can see.

Selling shares to the public is expensive, specialist banks charge a high commission for their services. Carlos and Jasmin will lose their control over the business, effectively it won't be owned by just them anymore as shares will be owned by other people and these shareholders will have a say in how the company is run.

#### Candidate B

The disadvantages of becoming a plc is that the business can become taken out of your hands and you will lose control. Selling shares to the public can be an expensive process as you have to use a specialist bank to sell them for you. Easier to be taken over. You have to publish your report and accounts for anyone to see them.

### Examiner Comment

#### Candidate A

A range of disadvantages have been outlined. These have been applied to the case but they have not been well applied which is why full marks have not been awarded.

**Marks awarded = 5 out of 6**

#### Candidate B

The candidate has listed a range of disadvantages but not applied them to the case, therefore level 1 awarded.

**Marks awarded = 3 out of 6**

### Question 2 (a)

Draw graphs showing the following information given in Table 1.

(i) Sales against time

(ii) Net profit against time

6

### General Comment

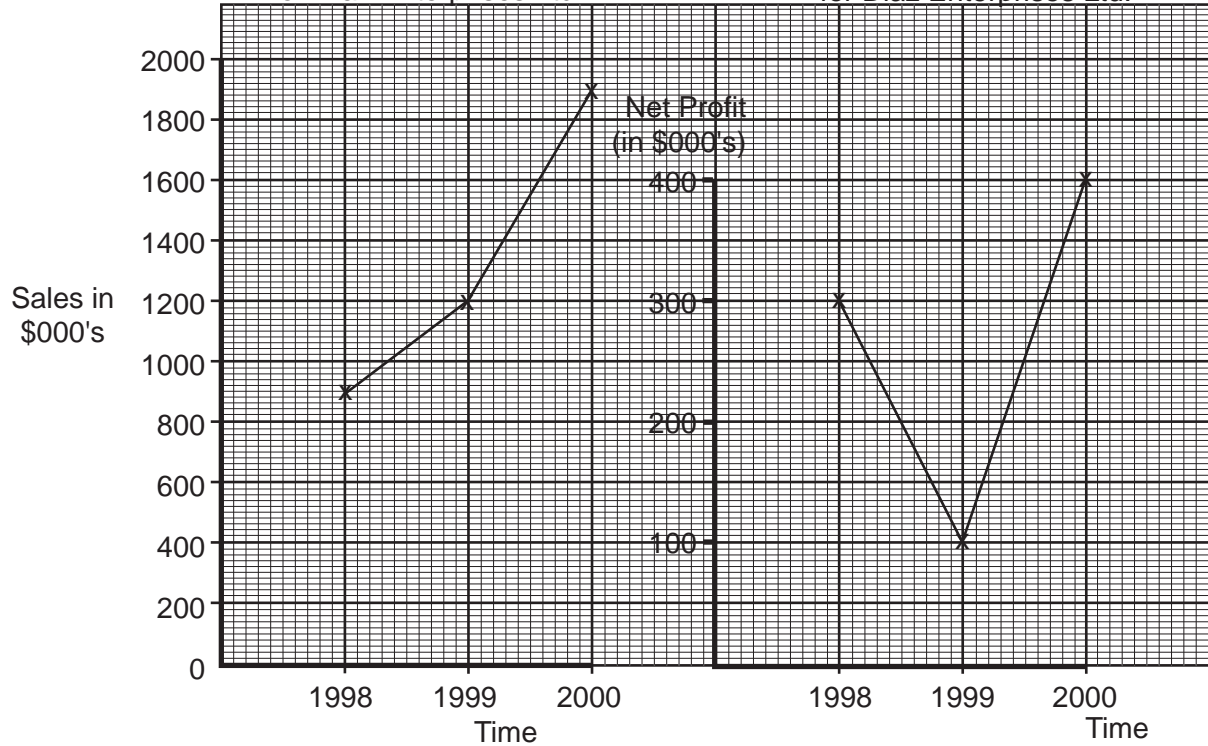
Two graphs need to be plotted accurately with the axes correctly labelled. Both require suitable scales.

**Individual Candidate Response**

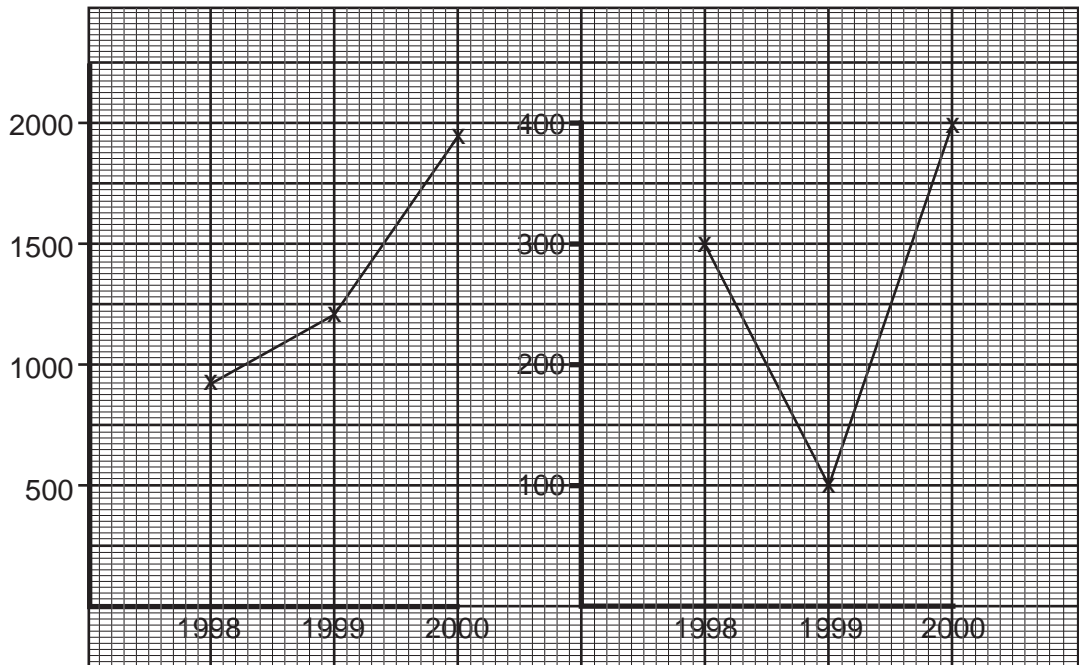
**Candidate A**

Graph to Show Sales over time for Diaz Enterprises Ltd.

Graph to show Net Profit over time for Diaz Enterprises Ltd.



**Candidate B**



### Examiner Comment

#### Candidate A

Both graphs plotted accurately and labelled correctly.

**Marks awarded = 6 out of 6**

#### Candidate B

Both graphs accurately plotted but the axes have not been labelled.

**Marks awarded = 4 out of 6**

### Question 2 (b)

How well do you think Diaz Enterprises Ltd has performed over the period 1998-2000? Use the data given in Table 1 and your graphs to support your view. **10**

### General Comment

To gain high marks reference should be made to a range of ratios that have been calculated based on the figures from Table 1 and then compared with the performance of the previous year. An evaluation of these ratios is required for full marks.

### Individual Candidate Response

#### Candidate A

The actual net profit figure followed a similar trend but the sales revenue increased each year for Diaz Enterprises Ltd. The net profit ratio went down from 33.33% in 1998 to 8.3% in 1999 and then rose in 2000 to 12%. This was due to the increase in direct costs over the period and they increased at a faster rate in 1999 than 2000. The direct costs to sales ratio went up from 44.9% in 1998 to 66% in 1999 and then fell back to 57.9%. However overheads increased more slowly. Overall the business seems to have performed worse in 1999 than 1998 due to direct costs rising faster than the growth in sales whereas the position improved in 2000 with growth in sales increasing faster than costs leading to an improved net profit ratio.

#### Candidate B

I think that Diaz Enterprise Ltd has done well according to the data shown. They have proved themselves to be a steadily growing business with sales rising over the three years. The table shows that they had more direct costs and overheads in 1999 and it affected their overall net profit in 1999 which was their bad year. In 2000 Diaz Enterprises Ltd had increased its net profit and sales had increased by \$700,000 whilst costs had increased by \$400,000 so net profit increased.

**Examiner Comment****Candidate A**

Clear discussion of the financial position of the business with correct ratios calculated. The candidate has calculated the relative changes not the absolute changes and commented upon these. The overall position of the business has been evaluated in terms of how it is performing.

**Marks awarded = 10 out of 10**

**Candidate B**

The answer is mainly descriptive with the candidate commenting on the absolute changes in the figures and no ratios were calculated. There are some analytical comments. A level 2 response.

**Marks awarded = 5 out of 10**

**Question 2 (c)**

Use Fig. 1 to state the expected profit if 50 000 toys are sold.

**2**

**General Comment**

A correct calculation will gain 2 marks.

**Individual Candidate Response****Candidate A**

\$250,000

**Candidate B**

$\$2,000,000 - \$1,750,000 = \$225,000$

**Examiner Comment****Candidate A**

Correct calculation although no workings are shown.

**Marks awarded = 2 out of 2**

**Candidate B**

Correct method is used but an arithmetic error means the wrong answer is given.

**Marks awarded = 1 out of 2**

**Question 2 (d)**

Calculate the break even order size.

**2**

**General Comment**

A correct calculation will gain 2 marks.

**Individual Candidate Response****Candidate A**

Break even = 33,333

**Candidate B**

Break even = overheads/unit contribution       $50,000/15 = 30,000$

**Examiner Comment****Candidate A**

Correct calculation although again no workings are shown.

**Marks awarded = 2 out of 2**

**Candidate B**

Correct method but an arithmetic error again gives the wrong answer.

**Marks awarded = 1 out of 2**

**Question 3 (a)**

Why do you think the business currently uses the batch method of production?

**4**

**General Comment**

There should be clear discussion of why batch production is suitable for the production of smaller quantities of products which have several different designs. Although the candidate could explain why flow production or job production of toys will not be used.

### Individual Candidate Response

#### Candidate A

Diaz Enterprises Ltd produces different designs of toys and therefore there is a limited quantity of each design which will be sold. Batch production allows the company to have a variety of products but still have a reasonable production line. This means they can offer a variety of toys to the buyers but can have an efficient and fast production time for each product. If they were to use flow production they would produce a large quantity of just one design of toy and not be able to change and they would be highly efficient. Too much of one product would be produced to be able to sell into the market. If they used job production then they could make individual toys but the costs of production would be huge. Batch production is a medium between the two.

#### Candidate B

Products are made in batches of a certain quantity, usually as orders come in. A certain number of one product is made, then a certain number of another product is made, and so on.

### Examiner Comment

#### Candidate A

This candidate has a clear understanding of why batch production is more suitable for a product where smaller quantities of different products are produced. They have also explained why flow and job production methods are not suitable for this business.

**Marks awarded = 4 out of 4**

#### Candidate B

A clear definition of batch production is given but there is no attempt to apply the answer to the case.

**Marks awarded = 2 out of 4**

### Question 3 (b)

Explain the advantages to:

- (i) the business and
- (ii) employees

of introducing new technology into its production methods.

**10**

### General Comment

Candidates should not just list the advantages of introducing new technology but also analyse why they are advantages. This requires some development of each point. These advantages should be applied not only **to the business** but also **to employees** to achieve full marks.



## Individual Candidate Response

### Candidate A

By introducing new technology into Diaz Enterprises Ltd overall efficiency can be improved and the speed of production will increase, once the staff are fully trained in the use of the new technology. Also the technology would probably allow the company to lay off some workers and cut the costs of production, they could then gain extra profit per unit or lower the sale price of each unit and hope to sell more toys. Technology would also make the chance of mistakes or faults in the toys less likely and the quality control stage of production would be dramatically speeded up, they would only have to check one in one hundred instead of one in ten. If the business has machines doing some of what was the manual labour then they do not have to worry about the hours that people will want to work as the machines can work twenty four hours a day seven days a week.

The employees that were not laid off from work would have a number of benefits from the introduction of technology to the business. It would mean that they got training in the use and implementation of the technology and if they ever wanted to move jobs it would look very good on their C.V. Also those that did stay on may not have to do so much manual work, some would merely look after machines and this would make their days work a lot easier. As some workers are laid off and, hopefully, profits would increase then the employees could ask for a pay rise or some other form of extra payment.

### Candidate B

The advantages of introducing new technology to the business will mean they can produce larger numbers of products in a shorter time. Also fewer workers will be needed. Diaz Enterprises Ltd want to expand output and introducing new technology should mean they will be able to produce more products in a faster time. Adding new technology means employees will have a better job to do which will have more interesting tasks. The employees may be paid higher wages.

## Examiner Comment

### Candidate A

Good clear explanation of the advantages of new technology and these have been applied not only to the business but also to the employees.

**Marks awarded = 10 out of 10**

### Candidate B

Two advantages for the business and three advantages for the employees are listed. However, two of the advantages for the employees are the same and so only two are credited.

**Marks awarded = 4 out of 10**

**Question 3 (c)**

Suggest how using lean production would help Diaz Enterprises Ltd.

6

**General Comment**

A clear idea of lean production should be used in the business with an evaluation of how cutting down on waste would result in increased efficiency and reduced costs for the business in the case.

**Individual Candidate Response****Candidate A**

Lean production would allow Diaz Enterprises Ltd to decrease the number of faults/defects in the soft toys it sells. It would make the workforce more motivated as they would solve their own problems instead of relying on others. The workforce itself would be looking for ways to improve its own efficiency and they would not have to try and employ a manager or specialist to tackle this problem for them. Lean production would allow the company to design and develop new products much faster than their competitors, this would give them the edge especially as they are seasonal. The individual manufacturing time per unit would be reduced by changing to lean production as well as the design time.

**Candidate B**

Lean production means to cut down on any waste and therefore increase efficiency and reduce costs. For example, a business might cut down the time it takes to design and develop a new product and then get it into the shops for sale.

**Examiner Comment****Candidate A**

The answer shows a good understanding of lean production and the response is applied to the case by discussing soft toys. The answer was applied to the case and achieved level 3.

**Marks awarded = 6 out of 6**

**Candidate B**

Good understanding of lean production shown but not linked to the case hence level 2.

**Marks awarded = 3 out of 6**

#### Question 4 (a)

Discuss the problems Diaz Enterprises Ltd might have as a result of accepting the large order from one customer. 10

#### General Comment

The relevant problems should be identified from the case and then explained in some detail. For the highest marks the candidate must also evaluate the implications of these problems for the business in the case.

#### Individual Candidate Response

##### Candidate A

If Diaz Enterprises Ltd accepts a large order from one customer then they are putting themselves at risk. If that buyer then pulls out then there will be a large amount of stock that cannot be sold on. Also Diaz Enterprises Ltd will want to keep the large ordering customer happy and this may be at the expense of the smaller ordering customers, this will mean that Diaz may come to rely upon the orders of the large buyer which would make them fatally susceptible to a dramatic change in the market place. The large buying customer would also have a lot of control over Diaz Enterprises limited as well, they would be a major stakeholder, if they wanted to they could probably force the company to sell them the goods at a reduced price and Diaz would have to comply or they would lose their main source of income.

##### Candidate B

If the large order from the one company is a high percentage of the business' income and they then decided not to be supplied by Diaz Enterprises then Carlos has lost a huge percentage of the business' sales. Also, having a large business buying from you, they tend to feel they have power over the business and start dominating the quality and delivery times of the products.

#### Examiner Comment

##### Candidate A

The candidate explains a range of problems for the business in the case. They also evaluate the effects on the business which puts the response into level 3. Some of the evaluation could be explained in a bit more detail and therefore full marks have not been awarded but it is still a good answer.

**Marks awarded = 8 out of 10**

##### Candidate B

The candidate gives two problems which they attempt to analyse in terms of the effects on the business. Analysis is weak, hence just into level 2.

**Marks awarded = 4 out of 10**

#### Question 4 (b)

Carlos plans to export toys. He is aware that he will need to change the whole marketing mix of the company's products. What type of promotion available to Carlos would be best in your own country if this was the new market? Justify your choices. **10**

#### General Comment

Different types of promotion should be outlined and then each one analysed as to why they would be suitable ways of increasing sales. Again for the highest marks the types of promotion should be applied to the business in the case and evaluated as to why the methods would be suitable for entering their country's overseas market.

#### Individual Candidate Response

##### Candidate A

Carlos could advertise on television as this would mean a lot of children and parents would see the advert and be aware of the toys. The adverts would go out to millions of people and the toys could be shown in a very favourable way to persuade children to buy the toys. Most people have a television and so it would be a most suitable way to advertise in my country. They would need to put the adverts on at a time when children's programmes are being broadcast so that the target audience will see the adverts. As a new product into this market it would be important to get the product known to a large number of potential customers. Children's magazines would also be a place where children would see the adverts and then ask their parents to buy them the toys. Lots of children buy magazines and so would be a way to persuade children to want the toys. This should also increase sales of the toys. Posters nearby to schools would be seen by the target market, that would be parents as well as children when they are on their way into school.

##### Candidate B

Advertising on daytime television with a promotional price to start would be a good way to attract customers as it would be seen by thousands of people. Children's magazines would be a good place to advertise because it is a visual way of advertising and could have money off coupons. The internet would be somewhere that adverts could be viewed at anytime of the day or night and so many would see these adverts, encouraging people to buy the products. Radio can have catchy jingles which attract peoples' attention and so increase sales.

#### Examiner Comment

##### Candidate A

The candidate has discussed several methods of advertising and analysed them in terms of their suitability to increase sales. The answer is also applied to the case and to the candidates' own country hence a level 3 answer.

**Marks awarded = 9 out of 10**

##### Candidate B

The candidate has outlined several ways of advertising but has not analysed these ways of advertising in any detail or how these methods might increase sales. The answer is not really applied to the case hence the response is level 2.

**Marks awarded = 4 out of 10**

### Question 5 (a)

The business will need to recruit new unskilled warehouse workers and a computer expert to look after the new technology in the factory. Discuss the ways of recruiting and selecting these two different types of employees. **8**

### General Comment

Candidates should outline the different ways of recruiting and selecting employees and analyse them in terms of these two different types of employees. The best answers will highlight the differences between the two types of employees and evaluate what this will mean for the ways they are recruited and selected.

### Individual Candidate Response

#### Candidate A

Unskilled warehouse workers could be recruited from the local area as there would be a lot of people locally who would be able to apply for the job and therefore a local newspaper would be a suitable place to advertise. However, a computer expert would probably come from another part of the country as these people are in short supply. They may not live nearby to the factory and so national newspapers would be used for these adverts to enable a large number of people who are computer experts to see the advert and be aware of the vacancy. Specialist computer magazines may also be used to make sure the advert is seen by a large number of people who are qualified to apply for the job. This should give the business a wider number of people from which to choose ensuring that they get the best person for the job. Both jobs would need a job description drawing up and a job specification. Also both jobs' applicants would fill in an application form. It is likely that both would be interviewed. However, the computer expert would need to go through different tests to see if they could do the job that is required otherwise someone could be given the job and they may not be able to do what is required. This is an important job for Diaz Enterprise Ltd.

#### Candidate B

To select the warehouse workers, who are unskilled would be fairly easy to recruit. They could advertise in the local newspapers which would be seen by lots of people who could apply for the job. As the job is unskilled many people would be able to apply for it and so it is not necessary to advertise the job in national newspapers. These people could fill in an application form which tells the business about the person and if they are suitable, they can then be given an interview. The interview will let the business see the person and consider if they are alright to be employed. Several people could be interviewed and the most suitable ones could be offered a job.

### Examiner Comment

#### Candidate A

This answer highlights differences and similarities between the two jobs. These are evaluated, particularly for where to advertise, in terms of the two jobs hence this is a level 3 answer.

**Marks awarded = 8 out of 8**

#### Candidate B

The candidate has only discussed one of the jobs and not both, as asked to do in the question. They have given some analysis of this job though so this is a level 2 response.

**Marks awarded = 4 out of 8**

### Question 5 (b)

Discuss in what ways the management of Diaz Enterprises Ltd might increase the motivation of its employees.

12

### General Comment

Good responses do not have to include motivation theory but it often helps the candidates to structure their answer. The discussion should include different ways of motivating employees and should include how these ways may work and why they may not always be effective. Top marks are for answers which have applied the motivation ideas to the case material.

### Individual Candidate Response

#### Candidate A

Motivation is about making workers feel happier in their work and therefore making them want to work harder and be more productive in their work. This leads to increased output and higher profits. To do this the business needs to address the needs of the employee according to Maslow. He thought that people have a hierarchy of needs and the more the business can fulfil the employees' needs and move up the hierarchy the happier they will be. He thought the basic needs to be satisfied were physiological needs that means that wages need to be high enough to meet weekly bills, then safety needs of job security, social needs of workers giving each other support at work, then esteem needs of the employees being given recognition of a job well done and finally if a worker should make it to the top, self-actualisation where workers are succeeding to their full potential. Taylor thought money is the main motivator, pay someone more money and they will work harder. Whilst McGregor thought there were two types of workers ones who worked hard and those who were lazy. All these theories mean that there are different ways to motivate workers. So if they want to motivate their workers by following Taylor, then they would simply pay the employees higher wages. This has not proved to be effective for any length of time and, according to Maslow, they should try to satisfy their employees' needs such as giving them recognition of a job well done. However, this may cause resentment from other workers if they feel it isn't fair. So often businesses try to make workers' jobs more interesting by job rotation where workers are changed around and do each others' jobs, this makes their jobs less boring and makes them happier in their work and therefore work more efficiently. They can also try job enlargement where they look at the job and try to add other tasks for the employees to do, again this is to make the job more interesting and make the employees happier. The type of motivation that the business uses will depend on the type of job the employees do, more skilled jobs with more responsibility will probably need to be given recognition whereas unskilled jobs may need more pay or job rotation.

#### Candidate B

If Diaz Enterprises Ltd wants to motivate the workers because things are a little slow, treating them to bonuses (if deserved) would make them work harder to reach their goal. Promoting people or giving workers a change in routine would give them something to look forward to for the next day. At the end of the day it is continuous routine work which makes employees lose their motivation to want to work hard. So just changing their routine regularly would automatically make them feel more motivated to do their job well. Job enlargement would mean the worker had additional tasks added to their job to make their job more interesting this should make them want to work harder as their job would be more interesting.

## Examiner Comment

### Candidate A

An excellent answer but it is not in terms of the case and therefore it is a good level 2. However, too much explanation of the motivation theories without using them to answer the question wasted time at the beginning of the answer.

**Marks awarded = 8 out of 12**

### Candidate B

The candidate only briefly explains ways to motivate staff and it is only really the second and third points about job rotation and job enlargement which explains how it would motivate employees that scores additional marks. This makes it just a level 2 answer. Apart from mentioning Diaz at the beginning the answer is not in terms of the case and so is not a level 3.

**Marks awarded = 5 out of 12**

Candidate Name \_\_\_\_\_

Centre Number Candidate Number

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**International General Certificate of Secondary Education  
CAMBRIDGE INTERNATIONAL EXAMINATIONS**

**0450/1**

**BUSINESS STUDIES  
PAPER 1**

1 hour 45 minutes

Candidates answer on the question paper.  
No additional materials are required.

**Specimen Paper for syllabus for first examination in 2004**

**TIME** 1 hour 45 minutes

**INSTRUCTIONS TO CANDIDATES**

Write your name, Centre number and candidate number in the spaces provided at the top of this page.

Answer **all** questions.

Write your answers in the spaces provided on the question paper.

**INFORMATION FOR CANDIDATES**

The number of marks is given in brackets [ ] at the end of each question or part question.

The businesses mentioned in the questions are entirely fictitious.

FOR EXAMINER'S USE	
<b>1</b>	
<b>2</b>	
<b>3</b>	
<b>4</b>	
<b>5</b>	
<b>TOTAL</b>	

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**This specimen question paper consists of 12 printed pages.**



1

Bombay Times	15 February 2002
<b>"PUBLIC SECTOR BUSINESSES LOSE \$1M A DAY"</b>	

(a) (i) Explain what is meant by a public sector business.

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..... [2]

(ii) Give an example of a business that you would expect to find in the public sector. Explain your answer.

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(b) State **three** objectives that a business in the PRIVATE sector of an economy might try to achieve.

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(c) (i) What are the main features of a business partnership?

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(ii) What are the advantages to the members of a partnership if the business is converted into a private limited company?

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(d) Explain **two** methods that a public limited company (plc) might use to communicate information to its shareholders.

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..... [6]

2 Company X sells its products to both consumers and business customers. Consumers pay cash immediately when they buy but business customers are given two months' credit. 60% of company X's sales are to business customers. Table 1 shows the total value of sales for company X during the first three months of the year.

**Table 1**

	January	February	March
Sales (\$000)	20	30	40

(a) Explain the following terms:

(i) debtors

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..... [2]

(ii) creditors

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..... [2]

(b) (i) How much cash from sales did company X receive in March? Show your calculations.

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..... [4]

(ii) Why do you think company X gives credit terms to business customers?

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(c) Explain why a business might use a bank overdraft to help with cash flow problems.

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(d) Company Y needs to raise capital to finance the purchase of new machinery. What factors should the management of the company consider when deciding how this capital should be raised? Explain your answer.

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3 L and B Games Ltd. has just produced a new computer game for teenage children. "We aimed at this market segment because we believe that these are the customers who spend most money on these types of products," said the marketing director. "We also needed to have a new product because some of our other games have reached the maturity stage of their product life cycle."

(a) Explain the following terms:

(i) market segment

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..... [2]

(ii) product life cycle

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(b) What distribution channels would you suggest that the company use for the new product? Explain your choice.

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(c) The marketing director knew that the price of the new game would be important in gaining sales. Market research showed that the market for such games was price elastic.

(i) Explain what is meant by price elastic demand.

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(ii) What other factors should the company consider before deciding on the selling price for the new game? Explain your answer.

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(d) Identify and explain **one** promotional method that the company could use to increase the sales of the game.

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4

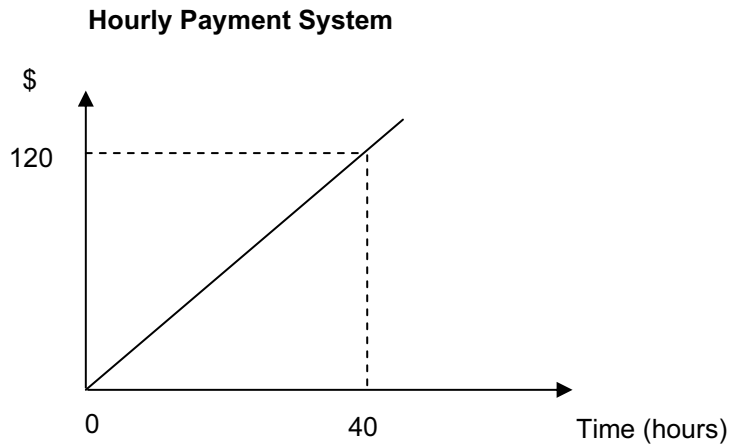


Fig. 1

A business pays its employees on a time basis with overtime payments sometimes being available.

(a) (i) Explain what is meant by overtime payment.

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..... [2]

(ii) In this business, if a member of staff works over 40 hours per week then an overtime rate of two times the normal hourly rate is paid.

Calculate the wage earned by someone who works 50 hours in one week.

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(b) Identify and explain another wage system that the business could use.

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(c) The morale and motivation of the employees at the company is known to be low. Identify and explain **two** non-financial methods that could be used to improve the situation.

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**(d)** Most of the employees of the company have recently joined a trade union. What advantages might the employees gain from joining a trade union?

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5 (a) An American multinational car manufacturer is closing some of its factories in the UK and transferring production to Spain and Germany. The Chief Executive explained that it was trying to reduce its costs to make the business more profitable. Both the government and the trade unions in the UK were unhappy with this decision.

(i) Explain what is meant by a multinational company.

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..... [2]

(ii) Identify and explain **three** factors the management of the company might have considered before making its decision.

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(iii) Explain one possible disadvantage to the Spanish government of allowing a multinational company to set up in Spain.

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**(iv)** Should governments intervene in business location decisions? Justify your answer.

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**(b)** In some countries governments pass laws that protect consumers.

Using an example, show how a consumer can benefit from such laws.

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UNIVERSITY *of* CAMBRIDGE  
International Examinations

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS  
International General Certificate of Secondary Education

## MARK SCHEME FOR SPECIMEN QUESTION PAPER

Syllabus for first examination in 2004

**BUSINESS STUDIES**

**0450/1**

**MAXIMUM MARK: 100**

- 1 (a) (i) The public sector is made up of activities that are owned, funded and controlled by the state or its agencies

Identification of two key features 2 marks  
Simple appreciation such as state run business 1 mark

Total = 2 marks

- (ii) Range of possible answers are acceptable here to include business activities related to transport, energy and key infrastructure enterprises 1 mark

Two further marks for explaining choice. Here reference to things like competition not appropriate; impact on third parties; strategic significance of the activity relevant 3 marks

Total = 3 marks

- (b) Identification of acceptable objectives 1 mark

Expected answers to include reference to profits; growth; survival; market share 3 marks

Total = 3 marks

- (c) (i) Awareness of key features 2-3 marks

Awareness of a feature 1 mark

Content - a relationship that exists between persons carrying on business with a common view to profit. The partnership has more than one owner and the joint owners will have shared responsibilities regarding the running of the activity

Total = 3 marks

- (ii) Awareness of main advantages 2-3 marks

Awareness of an advantage 1 mark

Content - main impact will be that it creates limited liability to the owners. It also increases the ability of the business to raise capital

Total = 3 marks

- (d) Explanation of a method 2-3 marks

Identification of a method 1 mark

Two methods required so the above applies twice

Content - AGM; company accounts and financial statements; extraordinary general meeting. Reference to legal requirements/frequency/right to receive

Total = 6 marks

- 2 (a) (i) Identification of key features 2 marks

Awareness of a feature 1 mark

Debtors are customers of a business that have received goods (and hence have a legal obligation to pay) but as yet have not paid

- (ii) Identification of key features 2 marks

Awareness of a feature 1 mark

Creditors are people to whom the business owes money as yet unpaid (short term liability)

Total = 4 marks

- (b) (i) In March cash comes from two sources - debtors from 2 months earlier plus cash from consumers

Debtors are 60% of \$20000 = \$12000 2 marks  
Cash customers are 40% of \$40000 = \$16000 1 mark  
Total cash received = \$28000 1 mark  
Total = 4 marks

- (ii) Good appreciation of reason 2 marks  
Some appreciation of reason 1 mark

Content - marketing tactic to gain custom; standard practice in the trade hence no option. Thus answer that just says way of gaining customers would gain 1 mark. If developed to say that by offering such terms it would help the cash flow of the customer and thus make them more willing to buy from X gains 2 marks

Total = 2 marks

- (c) Explain concept of an overdraft 1 mark  
Explain concept of cash flow 1 mark  
Thus a maximum of two marks for looking at ideas separately  
Link concepts together 3-4 marks

Overdraft is a facility to spend against cash not in an account up to an agreed limit. Cash flow problems refer to an imbalance between cash in and out of a business in a given time period. The overdraft is designed to enable a business to cope with cash shortages of an essentially short term nature.

Total = 4 marks

- (d) Number of points identified and discussed 4-6 marks  
Discussion non-existent or some points identified 1-3 marks

Content - long term capital need and hence source must reflect this. Long term bank loan (gearing and security issues); share issue (ownership implications); internally generated funds (feasibility)

Total = 6 marks

- 3 (a) (i) Statement explained showing good knowledge 2 marks  
Some knowledge 1 mark

A segment is a subpart of the total market made up of consumers with some common characteristics

Total = 2 marks

- (ii) Statement explained 2 marks  
Some knowledge 1 mark

Product life cycle refers to the pattern of the level of sales of a product over time

Total = 2 marks

- (b) Identification, explanation in context and justification 4-5 marks  
Identification and explanation but no justified choice 3 marks  
Identification of options 1-2 marks

Content - speed; cost; market exposure; appropriate for segment

Total = 5 marks

- (c) (i) Good understanding of concept 2 marks  
Some understanding of concept 1 mark

Content - refers to the responsiveness of consumer demand to a change in price. If elastic then highly responsive

Total = 2 marks

- (ii) Explanation of number of factors 4-5 marks  
Identification of some factors or limited explanation 1-3 marks

Content - market conditions; competition; price sensitivity of consumers; costs; margins in the trade

Total = 5 marks

- (d) Explanation of promotional method 2-4 marks  
Identification of promotional method 1 mark

Content - method chosen must be an accepted promotional tactic. To include the following - advertising; exhibitions; personal selling; sales promotion (offers)

Explanation will focus on how it operates and how it should have a positive impact on sales

Total = 4 marks

- 4 (a) (i) Good awareness of key features of concept 2 marks  
Some awareness of concept 1 mark

Content - extra payment calculated on a time basis for working in excess of the contractual number of hours in a given period

Total = 2 marks

- (ii) Hourly rate is \$3 1 mark  
Overtime rate is \$6 1 mark  
40 hours at \$3 and 10 hours at \$6 = \$180 1 mark

Total = 3 marks

- (b) Explanation of a method 2-4 marks  
Identification of a method 1 mark

Content - piece rates; payments by results (performance related pay); productivity bonuses etc. Explanation must show how any such system operates and is calculated

Total = 4 marks

- (c) Explanation of a method 2-3 marks  
Identification of a method 1 mark

Twice over

Content - improved conditions at work; improvement in management methods; job enlargement or enrichment; fringe benefits

Explanation must show why method should have an impact on motivation

Total = 6 marks

- (d) Explanation of a number of advantages 4-5 marks
- Explanation of a few or identification of a number 1-3 marks
- Content - protection against authoritative employer; ensures that legal rights are upheld; fights for improvements in things like conditions and contracts
- Answers must show how such benefits are generated by trade unions
- Total = 5 marks
- 5 (a) (i) Key features identified 2 marks  
A feature identified 1 mark
- Content - an organisation that operates (manufactures and sells) in a number of different countries. A global market enterprise
- Total = 2 marks
- (ii) Explanation of a factor 2 marks
- Identification of a factor 1 mark
- Three times
- Content - wage costs; employment legislation; planning laws; health and safety at work legislation; construction costs; nearness to markets and associated distribution costs.
- Total = 6 marks
- (iii) Explanation of a disadvantage 2-3 marks  
Identification of a disadvantage 1 mark
- Content - profits might flow out of the country; decisions taken by management abroad with little concern for Spain
- Total = 3 marks
- (iv) Conclusion supported by logical reasons 4-5 marks  
Discussion of relevant points but no conclusion 2-3 marks  
A point identified 1 mark
- Content - recognition of externalities (benefit and costs); environmental factors; economic considerations (jobs, incomes)
- Total = 5 marks
- (b) Discussion showing benefits and how it comes about (with example) 3-4 marks  
Some discussion indicating benefit but not well related to law 1-2 marks  
Content - consumers might benefit from protection against being charged too high prices; being sold goods of an unsatisfactory quality; being sold goods which are underweight; misleading advertising
- Total = 4 marks



Candidate Name \_\_\_\_\_

Centre Number

Candidate  
Number

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**International General Certificate of Secondary Education**  
**CAMBRIDGE INTERNATIONAL EXAMINATIONS**

**0450/2**

**BUSINESS STUDIES**

**PAPER 2**

1 hour 45 minutes

Candidates answer on the question paper.  
No additional materials are required.

**Specimen Paper for syllabus for first examination in 2004**

**TIME** 1 hour 45 minutes

**INSTRUCTIONS TO CANDIDATES**

**Write your name, Centre number and candidate number in the spaces provided at the top of this page.**

Answer **all** questions.

Write your answers in the spaces provided on the question paper.

**INFORMATION FOR CANDIDATES**

**The number of marks is given in brackets [ ] at the end of each question or part question.**

The businesses mentioned in the questions are entirely fictitious.

<b>FOR EXAMINER'S USE</b>	
<b>1</b>	
<b>2</b>	
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<b>TOTAL</b>	

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**This specimen question paper consists of 10 printed pages.**



## Diaz Enterprises Ltd

Diaz Enterprises Ltd is a small but rapidly growing business that makes and sells soft toys. Carlos Diaz is the general manager and he looks after the financial and marketing departments of the business. His wife Jasmin is in charge of personnel and production. She is responsible for recruitment and training of the work force. None of the employees are members of a trade union but at a recent workers' meeting some said they would like to join one. All production employees are paid by piece rates. 'Our production methods are a little old fashioned,' said Jasmin 'and we are going to invest in new technology which will make our production more efficient. Currently we use batch production methods'. The business will need to recruit (i) several unskilled employees to work in the warehouse and (ii) a computer expert to look after the new technology in the factory.

5

The management of the business thinks that its financial position is quite strong. 'Our balance sheet shows that we don't have too many debts. Also we usually have a good cash flow despite the seasonal nature of our business' said Carlos. 'However, we cannot afford to finance the new technology from our own funds. We should either take out a bank loan or change to a public limited company' added Carlos.

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The market for toys is very competitive with many rival companies fighting for a share of the market. Carlos is very pleased with himself. He has recently gained a large order for a new style of teddy bear from a major department store. This order might involve producing as many as 50 000 bears. He produced a break-even chart to show Jasmin the financial implications of the order. His chart is shown in Fig. 1 below.

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Table 1 gives a summary of the financial results of the business over the last three years.

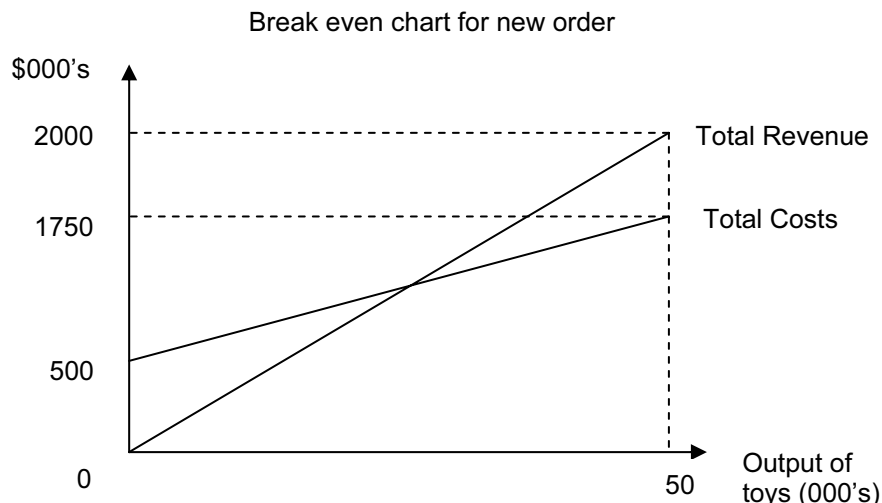
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**Table 1**

Financial results 1998 – 2000

	1998	1999	2000
Sales (\$ 000's)	900	1200	1900
Direct costs (\$ 000's)	400	800	1100
Overheads (\$ 000's)	200	300	400
Net Profit (\$ 000's)	300	100	400

25



**Fig. 1**

However, the domestic market is becoming even more competitive and Carlos is thinking of exporting some of their toys to other countries. He is aware that this would mean changing the whole marketing mix of the company. It would have many other implications but he feels that such a change would help achieve the growth targets that have been set.

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1 (a) How would you expect the organisation chart for Diaz Enterprises Ltd to differ from the organisation chart for a large business?

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(b) What are the advantages and disadvantages to the business of only having two people managing the business?

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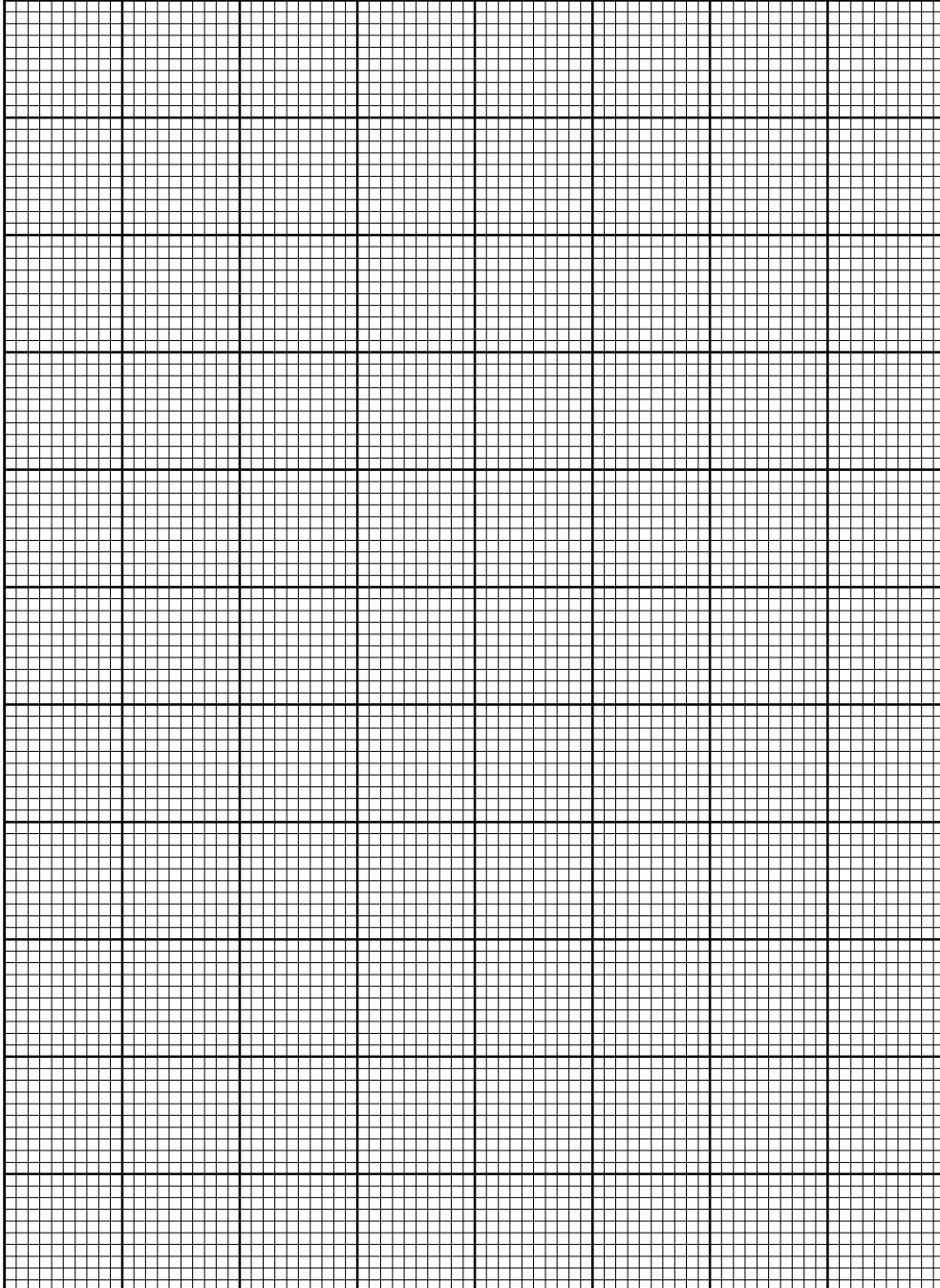


2 (a) Draw graphs showing the following information given in Table 1.

(i) Sales against time

(ii) Net profit against time

[6]





3 (a) Why do you think the business currently uses the batch method of production?

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(b) Explain the advantages to:

- (i) the business and
- (ii) employees

of introducing new technology into its production methods.

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(c) Suggest how using lean production would help Diaz Enterprises Ltd.

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4 (a) Discuss the problems Diaz Enterprises Ltd might have as a result of accepting the large order from one customer.

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**(b)** Carlos plans to export toys. He is aware that he will need to change the whole marketing mix of the company's products. What type of promotion available to Carlos would be best in your own country if this was the new market? Justify your choices.

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..... [10]

**5 (a)** The business will need to recruit new unskilled warehouse workers and a computer expert to look after the new technology in the factory. Discuss the ways of recruiting and selecting these two different types of employees.

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**UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS**  
**International General Certificate of Secondary Education**

**MARK SCHEME FOR SPECIMEN QUESTION PAPER**

Syllabus for first examination in 2004

**BUSINESS STUDIES**

**0450/2**

**MAXIMUM MARK: 100**

- 1 (a) The organisation chart in the case is very narrow with management functions being shared by just two individuals. In a large organisation the different departments would all be separated and run by different people.

Level 2 – clear analysis demonstrated of the need to have different departments in a large organisation. Some examples given – HR, marketing, production, finance, etc. to illustrate the point. Reward a drawing of what an organisation chart might look like for a large organisation. 4-6 marks

Level 1 – description of the organisation chart for this business. Vague mention of the need for a large business to have different departments. 1-3 marks

Total = 6 marks

- (b) Identification of the following advantages/disadvantages:

E.g. advantages

- Quick decision making
- Good communication
- Fewer disagreements

E.g. disadvantages

- Narrow range of skills
- Limited ability to delegate
- Lack of knowledge as do not specialise in a particular area

1 mark for each advantage identified, 1 further mark for evaluation of its effect on the business.

1 mark for each disadvantage identified, 1 further mark for evaluation of its effect on the business.

(4 x 2 marks)

Total = 8 marks

- (c) Disadvantages of a plc

- legal formalities of forming a plc
- regulations and controls
- selling shares is expensive
- possibility of loss of control
- possibility of takeover

Level 2 – range of disadvantages identified and applied to the case. 4-6 marks

Level 1 – narrow range identified or no real application to the case. 1-3 marks

Total = 6 marks

- 2 (a) Two simple graphs need to be plotted.

2 marks for scales

1 mark for correctly labelling the axes

1 mark for correctly plotting the data (2 marks for each graph x 2)

Total = 6 marks

- (b) Evaluation of the success of a business needs to be based upon certain criteria (benchmarks). In terms of both sales and net profit the business was performing better in 2000 than in 1998. Capital employed is not given and hence rate of return cannot be given. Good candidates might make reference to this. The only yardstick that can be used is recent past historical data. The following can be calculated:

	1998	1999	2000
Net profit/Sales	33.3%	8.3%	21%
Direct costs/Sales	44.9%	66%	57.9%

Sales growth 1998 – 1999 = 33%; 1999 – 2000 = 58%. Thus the trend is upwards and accelerating. Direct costs rising proportionally faster than sales turnover. Absolute profit is rising less rapidly as a consequence. Reference to 1999 performance can be expected. To constitute a Level 3 answer the candidate must make some use of derived statistics generated from the table.

Level 3 – evaluate answer based upon effective analysis of data 7-10 marks

Level 2 – some attempt made to analyse the information but largely descriptive 3-6 marks

Level 1 – answer entirely descriptive e.g. sales have risen and so have profits 1-2 marks

Total = 10 marks

- (c) \$250,000 (correct method but wrong answer = 1 mark) Total = 2 marks

- (d)  $B/E = \text{overheads/unit contribution} = 50000/15 = 33,333$  2 marks

Any acceptable method of calculation to be rewarded. O.F.R. applies  
If read off graph 1 mark

Total = 2 marks

- 3 (a) Different designs of toys are produced; therefore the different designs will be produced in batches. They will produce a quantity of one type of toy and then a quantity of another design. There will not be sufficient sales of each type of toy to make flow production worthwhile and too many of each type to allow job production to be used. It is the most efficient way of manufacturing the toys.

Level 2 – clear analysis of why they use batch production and/or why they should not use job or flow production. 3-4 marks

Level 1 – basic knowledge demonstrated of what is meant by batch production but not explained in the context of toy production. 1-2 marks

Total = 4 marks

- (b) Points to be raised may include the following **and should include advantages to both the business and employees:**

- Technology might reduce the time taken to produce a toy or reduce the number of employees needed. Either way unit costs fall
- It might give the business a greater competitive edge in this highly competitive market. Existing methods are old fashioned and inefficient
- They might increase the production capacity of the business and be in line with the expansion plans of the business
- Reduction in the number of workers needed and hence reduction in labour costs
- Increased range of skills required, therefore more interesting for employees
- Increased training leading to increased motivation and/or wages
- Increased efficiency may also lead to increased wages

Up to 5 marks for advantages listed plus 1-3 further marks for analysis of each advantage. **(NB a maximum of 6 marks should be awarded if only the business or employees are considered and not both)** Total = 10 marks

- (c) Lean production focuses on cutting down on waste in the production process. This may involve JIT to reduce stocks held, Kaizen to cut down on unnecessary movements of materials or people and therefore increase efficiency (could also include cell production and Kanban).

Level 3 – clear evaluation of how cutting down on waste would increase efficiency and reduce costs – link is made to Diaz Enterprises Ltd. 4-6 marks

Level 2 – clear idea of what is meant by lean production but not linked to the case material. 2-3 marks

Level 1 – vague idea of lean production – reduced costs, increased efficiency. 1 mark

Total = 6 marks

- 4 (a) Candidates are required to identify and explain relevant problems. Content might include the following:

- Customer withdraws order
- The business turns down other orders because it cannot meet the additional orders due to accepting this single large order
- The large customer dictates quality and delivery times
- Payment is not made quickly leading to cash flow problems
- The large customer wants a price reduction due to the size of the order

Level 3 – answer identifies a wide range of problems and evaluates their implications  
7-10 marks

Level 2 – answer identifies a range of problems and makes some attempt to analyse their implications  
4-6 marks

Level 1 – answer identifies a number of appropriate problems  
1-3 marks

Total = 10 marks

- (b) Types of promotion available might include advertising methods such as TV advertising, local/national newspapers, magazines, Internet, direct mail, radio and posters/billboards.

Types of promotional activities might include point-of-sale displays, competitions, money-off coupons, free gifts and price reductions.

Level 3 – level 2 plus clearly linked to Diaz Enterprises Ltd and evaluates why they would be suitable for entering their own country as the new overseas market.  
7-10 marks

Level 2 – clear idea about different types of promotion available and analysed as to why they may increase sales.  
3-6 marks

Level 1 – vague idea of different types of promotion – merely applied without any real development.  
1-2 marks

Total = 10 marks

5 (a) Points which could be considered are:

- places to advertise may be different e.g. local newspaper for warehouse workers, national newspapers for computer expert
- similarities will be both need a job description/person specification
- both may be sent an application form but the computer expert is more likely to send in a CV and a letter of application
- selection process may be different – both may include interviewing the candidates but the computer expert may need to complete skills/aptitude tests/problem solving exercise

Level 3 – differences in ways of recruiting and selecting the candidates evaluated in terms of the two types of employees 6-8 marks

Level 2 – ways of recruiting and selecting candidates analysed in terms of either or both employees but in general terms rather than differences highlighted 3-5 marks

Level 1 – limited points about how employees are recruited or selected but not applied to the case study. 1-2 marks

Total = 8 marks

(b) Motivation of employees can be explained using theories such as Maslow, but a good answer does not necessarily have to include discussion of theories.

Level 3 – level 2 plus clearly evaluated in terms of the case material. 9-12 marks

Level 2 – evaluation of how employees might be motivated – the methods management might use to increase motivation such as worker participation, job rotation, job enlargement, increase pay. 5-8 marks

Level 1 – general statement(s) about what is meant by motivation – that motivation is about encouraging the employees to work harder. Describes motivation in a general way without reference to the business. 1-4 marks

Total = 12 mark